DRAFT ANNUAL BUDGET OF-

# GAMAGARA

# Local Municipality (NC 453)

**MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK**
**2012/13 – 2014/15**

DRAFT ANNUAL BUDGET OF

# GAMAGARA LOCAL MUNICIPALITY

2012/13 TO 2014/15

MEDIUM TERM REVENUE AND

EXPENDITURE FORECASTS

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- All public libraries within the municipality
- At www.gamagara.co.za
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# Table of Contents

# Abbreviations and Acronyms

| | |
|---|---|
| AMR | Automated Meter Reading |
| ASGISA | Accelerated and Shared Growth Initiative |
| BPC | Budget Planning Committee |
| CBD | Central Business District |
| CFO | Chief Financial Officer |
| MM | Municipality Manager |
| CPI | Consumer Price Index |
| CRRF | Capital Replacement Reserve Fund |
| DBSA | Development Bank of South Africa |
| DoRA | Division of Revenue Act |
| DWA | Department of Water Affairs |
| EE | Employment Equity |
| EEDSM | Energy Efficiency Demand Side Management |
| M | Mayor |
| FBS | Free basic services |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| GDP | Gross domestic product |
| GDS | Gauteng Growth and Development Strategy |
| GFS | Government Financial Statistics |
| GRAP | General Recognised Accounting Practice |
| HR | Human Resources |
| HSRC | Human Science Research Council |
| IDP | Integrated Development Strategy |
| IT | Information Technology |
| kℓ | kilolitre |
| km | kilometre |
| KPA | Key Performance Area |
| KPI | Key Performance Indicator |
| kWh | kilowatt |
| ℓ | litre |
| LED | Local Economic Development |
| MEC | Member of the Executive Committee |
| MFMA | Municipal Financial Management Act Programme |
| MIG | Municipal Infrastructure Grant |
| MMC | Member of Mayoral Committee |
| MPRA | Municipal Properties Rates Act |
| MSA | Municipal Systems Act |
| MTEF | Medium-term Expenditure Framework |
| MTREF | Medium-term Revenue and Expenditure Framework |
| NERSA | National Electricity Regulator South Africa |
| NGO | Non-Governmental organisations |
| NKPIs | National Key Performance Indicators |
| OHS | Occupational Health and Safety |
| OP | Operational Plan |
| PBO | Public Benefit Organisations |
| PHC | Provincial Health Care |
| PMS | Performance Management System |
| PPE | Property Plant and Equipment |
| PPP | Public Private Partnership |
| PTIS | Public Transport Infrastructure System |
| RG | Restructuring Grant |
| RSC | Regional Services Council |
| SALGA | South African Local Government Association |
| SAPS | South African Police Service |
| SDBIP | Service Delivery Budget Implementation Plan |
| SMME | Small Micro and Medium Enterprises |

# Part 1 – Annual Budget

## 1.1 Mayor's Report

**Chief Whip of Council: Cllr. Dineo Moyo**

**Honourable Councillors**

**Chairpersons of various portfolio committees**

**The newly appointed Municipal Manager: Mr Thusoeng Clement Itumeleng**

**Managers accountable to the accounting officer and the entire staff component**

**Our Dedicated Ward Committees Members**

**Leaders of Political Parties**

**Members of Public**

**Our local Media**

**Various leaders of our society**

**Distinguish guests**

**Ladies and Gentlemen**

The Chip Whip , of the Gamagara Council , Cllr. Moyo, allow me once again as the servant of the people to table before you the 2012/2013 Budget.

It is privilege for me as a deployed cadre of the biggest liberation movement to be afforded with the opportunity to lead the service delivery vehicle of this municipality.

We table this budget before you today in a year that marks moments and events of history in our country. The oldest and the biggest liberation movement, the African National Congress formed in 1912 turned 100 years. These significant milestones that we had traverse through during the most difficult times in our country must be embrace as part of our national heritage, but at the same time we need to reflect the role played by us to improve our people's lives.

Honourable Councillors and members of public, our town is still rated the fastest growing town in the country as a result of economic opportunities that are available in this area respectively.

The challenge that we sitting with as council or the question that we need to ask is, do we equally compete with these developments as the municipality to ensure efficient and effective service delivery to our people. Do we have in place from now onwards for the next 20 to 30 years a concrete plan that outline how this town will be and what will be the sustainability plan to take us to the future?

During the 2012 state of the nation address by the state president, His Excellency Mr Zuma, he presented a multibillion rand for infrastructure development program for the entire country.

This will only becomes a reality if we all work together collectively as a team with other sectors of both public and private to tackle decisively the challenges confronting our country and our people.

Honourable Chief Whip,

Our municipality has done quite well over the years in terms of provision of Basic Services to our People particularly in the new areas and where people occupied in-services land and this was even confirm by COGTA that we were amongst the best municipality in the country. However, there is a lot that still need to be done given the current demand and influx in our areas. This cannot be achieved hence our call to our most cooperative mining houses or companies who are responding positively in assisting the municipality regarding the infrastructural development programs as well as Local Economic Development program benefiting our people.

**Local Government Turnaround Strategy**

Ladies and Gentlemen, in December 2009 the Cabinet approved the Local Government Turnaround Strategy (LGTAS). This plan intended to restore the confidence of the majority of our people in our municipalities.

Amongst others it seeks to ensure a functional, responsive, accountable, effective and efficient developmental local government.

The following strategic objectives were then identified by the national department of COGST in order to address the above mentioned issues:

- Ensure that municipalities meet the basic service needs of communities;
- Build clean, effective, efficient, responsive and accountable local government;
- Improve the performance and professionalism in municipalities;
- Improve national and provincial policy, oversight and support; and

- Strengthen partnerships between local government, communities and civil society.

Ladies and Gentlemen, allow me to say that over the years we had ensured together with our team of officials that we realise or achieve these objectives, as council we can confidently confirm here today in our 2012/2013 budget being tabled in council that we've done well not only in papers but practically to improve the lives of our people.

This council had also received a positive audit opinion from the office of the Auditor General in successively in two years, though there were few matters of emphasise that needed to be attended to by the management and staff.

Honourable Councillors, allow me just a moment to take this time to congratulate the work well done by the officials let by the Municipal Manager Mr. Itumeleng, who was at the time on an acting position and at the same time to congratulate him as the newly appointed Municipal Manager who will ensure that this council reach or achieve all its dreams.

We call upon all our stakeholders especially the Mines, Kumba Iron Ore (Anglo American) and Khumani (Assmang) our biggest partners in development to once again commit themselves to work with council in the coming financial year of 2012/2013 in order to ensure that we create a harmonious environment for all of us and make our municipality a World Class City in the next coming 10 years or so. As council we do appreciate and welcome their contributions towards infrastructure development and community development projects including the enterprise development program that they've invested in the current financial year.

We also believe that the budget that we are tabling before you today is the most realistic and implementable IDP for the coming financial year. In order for us to achieve all these we will need men and women who are determined to work tirelessly as Agents for Change in local government to fully implement this IDP.

**Public Participation and Stakeholders Engagements**

All structures are being called to the fore to work with us, the Ward Committees, CDWs, NGOs and Business as well as other sector departments for the realization of the council's dream, your participation in this process will assist us to achieve the strategic objective of government toward another centenary.

**Unemployment and Job Creation**

Poverty and unemployment still remains a critical challenge in our areas despite the economic opportunities availed by the mines and other strategic sectors, therefore we remain committed and focused as council to work with all these sectors to alleviate poverty and reduce unemployment by 2016. The council will continue to intensify a war against unemployment through the Extended Public Works Program (EPWP) that will in away assist to put bread on the table for the impoverished households.

The following are some of the financial aspects that will be covered in the Draft Budget to that I am tabling here today

**Financial Overview and Overall Budget**

**Key Assumptions Underpinning the Budget**

**Summary of the 2012/2012 Budget**

**2012/2013 Operating Budget**

**2012/2013 Capital Budget**

**Tariffs**

In conclusion, honourable chief whip, allow me to borrow the words of the state President in his State of the Nation Address of 2012 when he quoted the Founding President of the Women's League Cde. Charlotte Maxeke during her address to the National Council of African Women.

"This work is not for yourselves – kill that spirit of self and do not live above your people, but live with them. If you can rise, bring someone with you''

Thank you very Much!!

Ke a leboga!!

## 1.2 Council Resolutions

On 29 March 2012 the Council of Gamagara Local Municipality met in the Council Chambers of Gamagara Local Municipality to consider the draft annual budget of the municipality for the financial year 2012/13. The Council adopts the following resolutions:

1. The Council of Gamagara Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) adopts:

   1.1. The draft annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the core tables contained in the bound budget document :

2. The Council of Gamagara Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) adopts with effect from 1 July 2012:
   2.1. the tariffs for; property rates, electricity, the supply of water, sanitation services and solid waste services – as set out in Annexure A,

3. The Council of Gamagara Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) adopts with effect from 1 July 2012 the tariffs for other services, as set out in Annexures A.

4. To give proper effect to the municipality's annual budget, the Council of Gamagara Local Municipality approves:
   4.1. That cash backing is implemented through the utilisation of the bulk services fees and the proceed from the sale of land and a portion of the revenue generated from property rates and service charges to ensure that all capital reserves and provisions, unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

## 1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have 'items.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives and distributed pamphlets on the importance of paying municipal services to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51 and 54, 58 and 59 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Ageing and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Sedibeng Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2012/13 MTREF process; and
- High exposure on borrowings which restricts us from borrowing further for infrastructure development.
- The continuous growth of the town which places a huge burden on the municipality to either upgrade its bulk services or develop new bulk infrastructure.
- Lack of proper planning and prioritisation by user department; i.e. most of the activities in the budget are not supported with business plans and this adds unnecessary pressure on the finance department during the compilation of the budget. The MTREF makes provision for 3 year rolling plan to allow for proper planning.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2012/13 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2012/13 MTREF**

| R thousand | Adjustments Budget 2011/12 | Budget Year 2012/13 | Budget Year +1 2013/14 | Budget Year +2 2014/15 |
|---|---|---|---|---|
| Total Operating Revenue | 199,545 | 235,075 | 223,917 | 247,053 |
| Total Operating Expenditure | 184,669 | 189,992 | 193,363 | 215,259 |
| *(Surplus)/Deficit for the year* | 14,876 | 45,083 | 30,554 | 31,794 |
| Total Capital Expenditure | 59,249 | 143,523 | 115,069 | 50,230 |

Total operating revenue totals R235, 075 and represent an increase of 17,8 per cent or R 35, 530 million for the 2012/13 financial year when compared to the 2011/12 Adjustments Budget. For the two outer years, operational revenue will drop by 4.74 per cent and subsequently increase by 10.33 per cent respectively.

Total operating expenditure for the 2012/13 financial year has been appropriated at R189, 992 million and translates into a budgeted surplus of R45, 083 million that will be used to fund the capital budget. When compared to the 2011/12 Adjustments Budget, operational expenditure has increased by 2,88 per cent in the 2012/13 and 1.76 and 11,32 respectively in the 2013/14 and 2014/15 MTREF. The operating surplus for the two outer years drops to R 30,5million and R31.7 million respectively. These surpluses which will be mainly generated from bulk services and proceeds on sale of land will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R143, 523 million for 2012/13 is 142 per cent more when compared to the 2011/12 Adjustment Budget. The increase is largely due to the upgrade of bulk services, replacement of ageing fleet particularly in community services and contributions from the mines and Gamagara Development Forum. The capital programme decreases to R115 million in the 2013/14 financial year and drops substantially to 50 million in the 2014/15 MTREF. A substantial portion of the capital budget will be funded from internal generated funds. Internal generated funds will contribute 31 and 26 per cent of capital expenditure in each of the MTREF years, when government grants and transfers are excluded. The balance will be funded from grants and contributions from external stakeholders. Note that the Municipality has reached its prudential borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term. The repayment of capital and interest (debt services costs) has substantially increased over the past five years as a result of the aggressive capital infrastructure programme implemented over the past five years. Consequently, the capital budget remains relatively flat over the medium-term.

## 1.4 Operating Revenue Framework

For Gamagara Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with a town that is growing fast, development backlogs, ageing infrastructure and poverty. The expenditure required to address these challenges will inevitably

always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

Refer to table 2 in the annual budget for a summary of the 2012/13MTREF (classified by main revenue source):

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2011/12 financial year, revenue from rates and services charges totalled R132 million or 66.46 per cent. This increases to R156million, R161million and R180million in the respective financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from rates and services charges which increases from 66 per cent in 2012/13 to 72 per cent in 2013/14, and this uniquely positions Gamagara municipality as one of the few municipalities that are self-sustainable and not dependent on grant. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates total R21 million rand and increases to R23 million by 2014/15 and 'other revenue' which consists of bulk services and totals R42, 7million by 2012/13 and R32,9 million by 2013/14. Proceeds from the sale of land totals R15 million in the 2012/13 financial year.
Operating grants and transfers totals R29,8 million in the 2011/12 financial year and drops to R27 million by 2014/15.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality. Departments have been urged to review all tariffs on an annual basis to ensure they are cost reflective and market related.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Sedibeng Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and water tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc.The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

### 1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2012/13 financial year based on a 8 per cent increase from 1 July 2012 is contained below:

**Table 2 Comparison of proposed rates to levied for the 2012/13 financial year**

| Category | Current Tariff (1 July 2010) | (from 1 July 2011) | Proposed tariff (from 1 July 2012) |
|---|---|---|---|
| | c | C | C |
| Agricultural Farms | 0.001593 | 0.001720 | 0.000595 |
| Business/Res Bus Unreg | 0.009558 | 0.010323 | 0.011148 |
| State owned/Public schools | 0.006372 | 0.006882 | 0.007432 |
| Mining | 0.012744 | 0.013764 | 0.014865 |
| Residential | 0.006372 | 0.006882 | 0.007432 |
| Business | 0.012744 | 0.013764 | 0.014865 |
| Industrial | 0.011151 | 0.012043 | 0.013007 |

### 1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 8 per cent from 1 July 2012 for water is proposed. This is based on input cost assumptions of 10 per cent increase in the cost of bulk water (Sedibeng Water), the cost of other inputs increasing by 10 per cent and a surplus generated on the water service of a minimum 15 per cent. In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents and a further 6 kl will be granted to indigents households.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

**Table 3 Proposed Water Tariffs**

| CATEGORY | CURRENT TARIFFS 2012/13 | PROPOSED TARIFFS 2013/14 |
|---|---|---|
| | Rand per kℓ | Rand per kℓ |
| **Potable** | | |
| (i) 001 – 0006 Kl | **Free** | **Free** |
| (ii) 006 – 00012 Kl | 6.57 | 7.10 |
| (iii) 013 – 00035 kl | 8.72 | 8.48 |
| (iv) 036 – 9999 kl | 11.63 | 11.31 |
| | | |

| CATEGORY | CURRENT TARIFFS 2012/13 | PROPOSED TARIFFS 2013/14 |
|---|---|---|
| | Rand per kℓ | Rand per kℓ |
| | | |
| **Raw** | | |
| (i) 001 – 00200 Kl | 4.35 | 4.69 |
| (ii) 201 – 00300 Kl | 5.31 | 5.73 |
| (iii) 301 – 00400 kl | 8.47 | 9.14 |
| (iv) 401 – 9999 kl | 11.77 | 12.71 |
| | | |

The tariff structure of the 2012/13 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption a higher rate.

### 1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure and has approved a guideline increase for municipalities as follows:

A guideline increase of 11.03%, which is based on the following assumptions:

- Bulk purchases have been increased by 13.50% in line with Eskom's electricity tariff increase to municipalities;
- A consumer price index (CPI) of 5.4%;
- Salary and wage increases of 5%, in line with the increase proposed in the 2011 Medium Term Budget Policy Statement (MTBPS);
- Repairs and maintenance, capital charges and other costs have been increased by the CPI

Considering the Eskom increases, the tariffs were increased in line with their inclining block tariff guideline to offset the additional bulk purchase cost from 1 July 2012; however this has resulted in an average increase of 23.8 per cent as the business tariff increased by 84%. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge. The following table shows the impact of the proposed increases in electricity tariffs on the electricity charges for domestic customers:

| **Domestic Tariffs (IBTs)** | **2011/12** | *Tariff Increase* | **2012/13** |
|---|---|---|---|
| **Prepaid Meters** | **R** | **%** | **R** |
| Block 1 (0-50KWh) | 0.63 | 5.4 | 0.66 |
| Block 2 (51-350KWh) | 0.72 | 13.56 | 0.82 |
| Block 3 (351-600KWh) | 0.98 | 11.03 | 1.09 |

| | | | |
|---|---|---|---|
| Block 4 ( >600KWh) | 1.16 | 11.03 | 1.29 |
| **Conventional Meters** | | | |
| Block 1 (0-50KWh) | 0.70 | 5.4 | 0.74 |
| Block 2 (51-350KWh) | 0.82 | 13.56 | 0.93 |
| Block 3 (351-600KWh) | 1.06 | 11.03 | 1.18 |
| Block 4 ( >600KWh) | 1.16 | 11.03 | 1.29 |

It should further be noted that based on NERSA's advice we are implementing a stepped tariff structure from 1 July 2011. The effect thereof is that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

### 1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 8 per cent for sanitation from 1 July 2012 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 8 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation (100 per cent of 6 kℓ water) will be applicable to registered indigents; and

The following table compares the current and proposed tariffs:

**Table 4 Comparison between current sanitation charges and increases**

| CATEGORY | CURRENT TARIFF PER kℓ | PROPOSED TARIFF PER kℓ |
|---|---|---|
| | R | R |
| | 2011/12 | 2012/13 |
| Sewer | 3.52 plus 54.57 basic charge | 3.80 Plus 58.93 basic charge |

### 1.4.5 Waste Removal and Impact of Tariff Increases

A 8 per cent increase in the waste removal tariff is proposed from 1 July 2012. Higher increases will not be viable owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 8 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2012:

**Table 10 Comparison between current waste removal fees and increases**

| | **Current Tariffs 2011/12 R per Month** | **Proposed Tariffs 2012/13 R per month** |
|---|---|---|
| Households (1 x weekly) | R91.65 | 98.98 |
| Business (2 x weekly) | R133.25 | 143.91 |

## 1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The budgeted allocation for employee related costs for the 2012/13 financial year totals R63, 582, which equals 33.46 per cent of the total operating expenditure. Since the three year collective SALGBC agreement came to an end, salary increases have been factored into this budget at a percentage increase of 5 per cent for the 2012/13 financial year in line with the increase proposed in the 2012 Medium Term Budget Policy Statement. As part of the planning assumptions and interventions all vacancies will have to be removed from the budget and a report must be compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality.In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998).The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 95 per cent and the Debt Write-off Policy of the Municipality. For the 2012/13 financial year this amount equates to R2,1 million.While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been brought at cost. Note that the implementation of GRAP 17 accounting standard means bringing a range of assets previously not included in the assets register onto the register. This will result in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 5, 8 per cent of the operating expenditure.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Sedibeng Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.Growth has been limited to 8 per cent for 2012/13 indicating that significant cost savings have been already realised.

### 1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2012/13 budget and MTREF provide for extensive growth in the area of asset maintenance, as this emphasises the need for asset renewal strategy and repairs and maintenance plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

During the compilation of the 2012/13 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance.

### 1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 3000 or more indigent households during the 2012/13 financial year, a process reviewed annually.Detail relating to free services, cost of free basic services, revenue lost owing to free basic services as well as basic service delivery measurement contained in table 10.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

## 1.6 Capital expenditure

Please refer to Table A5 of the bound budget document for a breakdown of budgeted capital expenditure by vote:

For 2012/13 an amount of R143, 523 million has been appropriated for the upgrading and development of infrastructure. In the outer years this amount totals R115 million and R50million for each of the financial years. 31.4 per cent of the capital budget is funded from internally generated funding and the rest by Grants and contributions from external stakeholders. The said news is that our Municipal infrastructure Grant has been slashed from R17 million reflected in the division of revenue bill to R10 Million in the Division of Revenue Act (DoRA). Please note that the internal funding for capital budget is envisaged from the proceeds from the sale of land and bulk services and unless that is realized no projects will be funded from internal sources.

Thank you